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Kalamazoo? No, but it's not bad

John Pearson

A commentary on the Michigan "Students First" loan program

August 2007

In the fall of 2005, a group of Kalamazoo philanthropists announced the "Kalamazoo Promise" program to fully fund a Michigan college or university education for graduates of the local public school system.

The response was stunning. Real estate activity surged. Copycat programs emerged in cities like Newtown, Iowa and Dayton, Ohio. Even the state of Michigan itself set up an initiative to provide high school grads with a Michigan college incentive.



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Fortunately, not everyone pulled up stakes and moved to Kalamazoo. And for those who still want to attend a Michigan college or university and need to borrow funds, there is the Michigan Students First program, which has some terrific advantages...in fact, some of which are a bit mystifying to me.

Students First took form in 2002 and was so attractive that schools like Michigan State University, a long time direct lending institution, returned to the FFEL fold in 2003. For MSU's financial aid director Richard Shipman, this was an obvious solution for helping their students and parents.

"With the loan origination fees being waived, rate reductions on PLUS loans and zero percent interest rate after 36 months of on time payments, this is a no-brainer for borrowers," said Shipman. "And, unlike other incentives, it's a real benefit that we are beginning to see a large group of borrowers actually benefiting from."

Shipman points to statistics maintained by Great Lakes Higher Education, a main provider of servicing on these loans, which said that 77% of PLUS loans obtained under this program at MSU were on time for receiving or actually getting these benefits. "The sample size for students is a bit early yet, because we are really just starting into payback on these loans, but we are projecting a 70% benefit rate for students."

Why is it not 100%? Shipman points to active loan consolidation marketing as the primary reason for convincing the others to abandon these lucrative benefits. To that end, MSU's financial aid department is taking an active role in e-mailing and counseling parents and students on what they might be giving up by consolidating.

This "leakage" to consolidation may in part be due to the fact that the structure of the rate reduction program is such that, once the interest rate is cut to zero, the

monthly payment amount still remains the same. This shortens the payback period, but for those looking to improve their monthly cash flow, consolidation may have some appeal.

What I don't understand is the richness of the benefits, and where the state and taxpayers of Michigan are expecting the payback for them. Unlike the [Maine initiative](#) featured last week, this one is open to Michigan residents and non-residents alike, as long as they attend college in the state. If they move out after graduation, the benefits still apply, as long as they don't miss a payment by more than 28 days and don't consolidate.

So, thanks Michigan taxpayers. Students First is great way to attract students to Michigan colleges, but will it help the state's economy outside college towns? I think the jury is out. In the meantime, I'll still be checking the real estate listings in Kalamazoo.

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